Kuala Lumpur Kepong (KLK MK)

2QFY26 Preview: Weaker qoq In Tandem With Seasonality

BUY (Maintained)	
Share Price	RM20.86
Target Price	RM24.65
Upside	18.2%

Highlights

- We expect KLK's 2QFY26 core net profit to come in weaker qoq at RM290m-310m, mainly due to seasonality as FFB output softened 15% qoq vs 1QFY26.
- Earnings however are expected to recover thereafter, with output likely to pick up from April onwards and continue to ramp up thereafter.
- Maintain BUY on KLK with an unchanged target price of RM24.65.

Analysis

- **2QFY26 results preview.** Kuala Lumpur Kepong (KLK) is likely report sequentially weaker 2QFY26 core net profit of RM290m-310m (19-24% lower qoq). Key drivers to our expectations of the weaker earnings are seasonally weaker FFB output, which declined 15.4% qoq vs 1QFY26. On the other hand, ASPs are expected to remain largely similar or marginally lower qoq, as spot prices of CPO hovered at RM4,140/tonne (-1% qoq) during the quarter.
- **Plantation segment.** On a mom basis, FFB output was down 6%/17%/2% over Jan-Mar 26 – indicating that production started to trough around February and began to stabilise in March. We expect production to pick up from April onwards, as the group kick starts the next production cycle which would likely see FFB volume rise for the next 6-7 months. Ytd, KLK's FFB output is up 6.4% yoy – which continues to track management's FY26 growth target of mid- to high single digits. Separately, the segment's operating cost base is expected to remain relatively stable for FY26, with fertiliser input costs largely locked in for the year.
- **Downstream operations.** We expect its downstream segment to meaningfully recover from FY25's pre-tax losses of RM174m, with the group having right-sized some of its operations while also incurring up-front overhead costs for new capacity additions elsewhere. Subsequent to this, we expect its processing margins to return to positive territory, supported by incremental contribution from its newly-commissioned downstream complex in East Kalimantan, Indonesia. Meanwhile, we gather that its oleochemicals operations in Europe has begun to stabilise after undergoing some restructuring last year.

Key Financials

Year to 30 Sep (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	22,274	25,020	34,243	35,067	34,716
EBITDA	2,864	3,099	3,622	3,978	4,102
Operating profit	1,817	2,060	2,565	2,874	2,952
Net profit (rep./act.)	591	818	1,568	1,768	1,771
Net profit (adj.)	899	1,004	1,567	1,767	1,770
EPS (sen)	83.3	93	145	163	164
PE (x)	24.1	20.6	13.2	11.7	11.7
P/B (x)	1.5	1.4	2.1	2.0	1.9
EV/EBITDA (x)	1.4	2.0	3.8	4.3	4.3
Dividend yield (%)	1.4	2.0	3.8	4.3	4.3
Net margin (%)	3.2	3.3	4.3	5.0	5.0
Net debt/(cash) to equity (%)	50.2	65	100	96	87
Interest cover (x)	8.0	7.4	7.7	7.9	7.2
ROE (%)	5.8	4.2	9.8	13.3	13.7
Consensus net profit	-	-	1,350	1,376	1,401
UOBKH/Consensus (x)	-	-	1.16	1.25	1.26

Source: KLK, Bloomberg, UOB Kay Hian

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Stock Data

GICS sector	Consumer Staples
Bloomberg ticker:	KLK MK
Shares issued (m):	1,096.4
Market cap (RMm):	23,273.3
Market cap (US$m):	5,945.7
3-mth avg daily t'over (US$m):	5.6

Price Performance (%)

52-week high/low				RM23.18/RM18.60
1mth	3mth	6mth	1yr	YTD
(4.5)	5.2	(2.5)	3.1	5.4

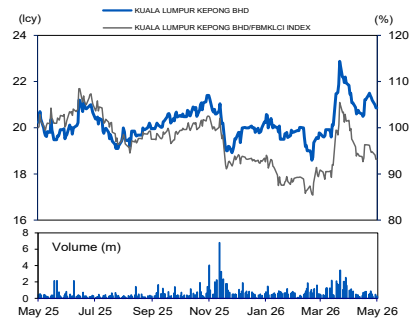
Major Shareholders

	%
Batu Kawan Bhd	47.9%

Balance Sheet Metrics

FY25 NAV/Share (RM)	13.6
FY25 Net Debt/Share (RM)	6.84

Price Chart



Source: Bloomberg

Company Description

Plantation company also engaged in downstream manufacturing and property development.

- **2HFY26 outlook.** We expect earnings in the subsequent quarters to be well-supported by elevated ASPs, with CPO prices expected to be boosted by the roll-out of regional biofuel policies, namely those in the US and Indonesia's B50 blending mandate. In addition, upstream production is expected to rise over 2HFY26 as well after troughing in 2QFY26. For the downstream segment, earnings contribution may remain volatile in the short term amid stiff industry competition as well as fluctuations in palm oil tax measures between Malaysia and Indonesia, but this is nonetheless expected to remain in positive territory relative to losses made during its previous quarters. On a separate note, headline profit for 4QFY26 may be affected by continuing share of losses attributed to its associate Synthomer – whose earnings are reflected in KLK's P&L on a half-yearly basis – amid ongoing business restructuring initiatives.

Valuation/Recommendation

- **Maintain BUY with an unchanged target price of RM24.65.** Our valuation is pegged to 17x FY26F PE (-1SD to the average five-year mean of 23x). We continue to like KLK as a laggard sector play backed by its estates' positive production growth profile, while we also expect its downstream segment to begin stabilising in FY26 relative to pre-tax losses of RM174m registered in FY25.

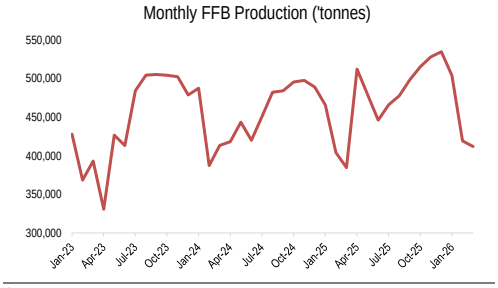
Earnings Revision/Risk

- **Earnings estimates.** We make no changes to our FY26-28 estimates. FY26 core profit is forecasted to rebound 56% yoy, driven by an anticipated recovery in downstream profitability, relative to stiff losses incurred in FY25, whereas upstream contribution is expected to come in stronger on the back of sustained positive production output in addition to higher ASPs expected for the year ahead – we forecast CPO prices to average RM4,500/tonne for 2026.

Share Price Catalyst

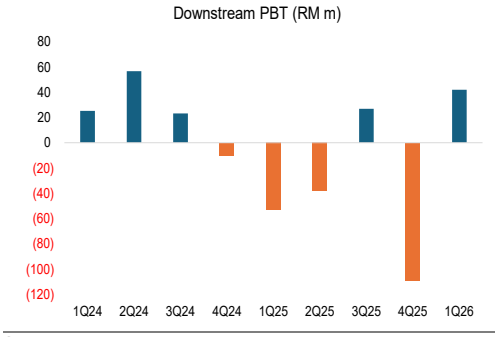
- Better-than-expected CPO prices and production growth.
- Marked recovery in downstream operating margins.
- Potential M&A activities.

Monthly FFB Production Growth yoy



Source: KLK

Downstream Segment Profitability Trend



Source: KLK

ESG Roadmap

Environmental
- All Malaysian estates are MSPO certified, while Indonesian estates are 80% ISPO certified. - Committed to no deforestation, no peat land and no exploitation.
Social
- Smallholders' development and best practices training programme.
Governance
- Transparent governance along with an Anti-Bribery and Anti-Corruption Policy.

Profit & Loss

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Net turnover	25,020	34,243	35,067	34,716
EBITDA	3,099	3,622	3,978	4,102
Deprec. & amort.	1,039	1,057	1,104	1,149
EBIT	2,060	2,565	2,874	2,952
Total other non-operating income	168	170	171	170
Associate contributions	-108	100	100	100
Net interest income/(expense)	-420	-446	-491	-565
Pre-tax profit	1,514	2,390	2,654	2,658
Tax	-540	-574	-637	-638
Minorities	-156	-249	-249	-249
Net profit	818	1,568	1,768	1,771
Net profit (adj.)	1,004	1,567	1,767	1,770

Balance Sheet

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Fixed assets	12,959	13,561	14,145	14,682
Other LT assets	21,105	21,501	22,123	22,704
Cash/ST investment	2,492	3,635	5,406	7,340
Other current assets	4,969	4,969	4,969	4,969
Total assets	31,738	36,193	38,708	41,479
ST debt	5,246	4,946	4,646	4,346
Other current liabilities	1,940	1,977	2,017	2,067
LT debt	6,449	8,471	10,487	12,504
Other LT liabilities	976	5,631	5,631	5,631
Shareholders' equity	14,265	9,804	10,268	11,154
Minority interest	1,243	1,492	1,741	1,990
Total liabilities & equity	31,738	36,193	38,708	41,479

Cash Flow

Year to 30 Sep (RMm)	2025	2026F	2027F	2028F
Operating	-306	2,601	2,580	2,743
Pre-tax profit	1,514	2,390	2,654	2,658
Tax	-540	-574	-637	-638
Deprec. & amort.	1039	1057	1104	1149
Working capital changes	-2252	188	-81	35
Other operating cashflows	-67	-461	-461	-461
Investing	-1,641	-1,641	-1,641	-1,641
Capex (maintenance)	-1641	-1641	-1641	-1641
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	1308	933	833	831
Dividend payments	-409	-784	-884	-886
Issue of shares	0	1	2	2
Proceeds from borrowings	2017	2017	2017	2017
Loan repayment	-300	-300	-300	-300
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	-639	1,892	1,771	1,932
Beginning cash & cash equivalent	2,381	1,742	3,635	5,406
Changes due to forex impact	0	1	1	1
Ending cash & cash equivalent	1,742	3,635	5,406	7,340

Key Metrics

Year to 30 Sep (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	12.4	10.6	11.3	11.8
Pre-tax margin	6.1	7.0	7.6	7.7
Net margin	3.3	4.6	5.0	5.1
ROA	3.3	4.6	5.0	5.1
ROE	12.4	10.6	11.3	11.8
Growth				
Turnover	12.2	9.4	4.3	0.3
EBITDA	21.1	6.4	5.4	3.4
Pre-tax profit	24.2	17.7	9.3	4.3
Net profit	17.8	33.7	9.3	4.3
Net profit (adj.)	17.8	37.7	9.3	4.3
EPS	17.8	37.7	9.3	4.3
Leverage				
Debt to total capital	75.4	118.8	126.0	128.2
Debt to equity	82.0	136.9	147.4	151.1
Net debt/(cash) to equity	64.5	99.8	94.7	85.3
Interest cover (x)	7.4	8.1	8.1	7.3

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